

# The *Dirty* Secrets of Credit Cards

By Paul Michael

The average American has around 8 credit cards and is carrying roughly \$9000 in credit card debt. If that's not bad enough, the credit card companies are involved in what can only be described as a conspiracy to keep Americans in debt, permanently.

I watched an incredible PBS documentary online last night called "Secret History Of Credit Cards". You can watch the 5-part eye-opener here at your leisure. But if you don't have an hour to spare, here are some of the biggest dirty secrets for you. You may want to sit down for these.



1. Minimum Payments = 35+ years of repayments. The minimum monthly payment used to be 5%. That caused a problem for the credit card issuers. Folks were being forced to pay off their balance too quickly, PLUS the cost of that 5% minimum made people wary of running up high bills. The solution was genius. Institute a 2% minimum payment. Not only will people splurge more because they have to pay less back each month, but it adds thousands of dollars in interest and increases the repayment time by DECADES. Sneaky doesn't even cover it.
2. A late payment to ANY creditor can skyrocket your APR. I'm not talking here about just your credit card payment being late. If you miss a car payment, mortgage payment, cell phone bill, in fact any payment, your APR can automatically increase to the massive default APR, which is usually 25-35%. Even if you're ON TIME with your credit card payments, a late payment anywhere else can instigate this penalty. It's known as the "Universal Default Clause." Supposedly, it protects the credit card issuers from folks who are credit risks. Like these multi-billion dollar companies need protection from the little people.
3. There is NO LIMIT put on late payment charges. This is something no other industry could get away with. You'd think there would be some kind of law preventing the banks from charging loan shark penalties, but there isn't. Be just one hour late for a payment and instead of a \$5 or \$10 fee, you're looking at least \$30. Mine charges \$36. Many financial analysts believe that with no cap on these fees, they will easily rise to \$50-\$60 in the next year. And remember, when you're late they're also killing you with a huge APR. Double whammy.
4. There is also no federal limit on interest rates. Don't you find it odd that in a time of very low interest on anything from car loans to mortgages, credit card companies can hand out APRs that embarrass loan sharks. Well, it's not unusual to see 34.99% APRs, especially as a default rate, and the reason is simple. Most credit card companies reside in states like South Dakota or Delaware. States that have very weak or even no "usury laws". So, there's no cap on interest. By law, there's nothing to stop them charging whatever interest they want. Here's a map that links to the locations of top 10 credit card issuers.

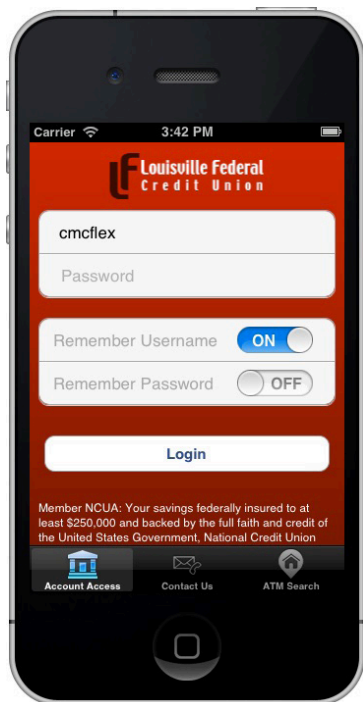
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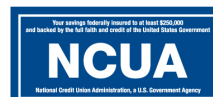
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5. You can often pay interest TWICE in one month. This one's called "two-cycle billing" and it's also a completely legal loop-hole. Let's say you pay off the balance of your card in full at the end of one month, say April. But in May, you don't pay off your complete balance. Boom, some credit card issuers will charge you for two months' worth of interest. Aren't they lovely?
6. Grace periods are getting shorter...or being eliminated. Remember the good old days, when you had 25 days to pay off your balance without incurring charges? Well, those could soon be a distant memory. Some banks have already shortened the grace period to 20 days. (Do you know what yours is? It may have changed.) And other banks are doing away with grace periods completely. That means you're paying interest on anything you buy, the second you buy it, even if you pay off your balance each month. The clock is running folks.
7. Cash advances hit you twice in the wallet. First, as I'm sure you know, you'll get a different, higher APR applied to your cash advances. But you also get hit with a transaction charge, around 2.5%. Even credit cards that confidently announce "no finance charges" can still bill you for transaction charges.
8. The fine print is a web of deceit. Let's be honest, these days you need 2 hours and a law degree from Harvard to understand the mumbo-jumbo in the fine print. But try and read it if you can. Because this is where the credit card issuer can hide a whole bunch of nasty surprises. The biggest is scarier than Godzilla on crack. Basically, the credit card issuer can change your APR at ANY time, as long as they give you 15 days notice. No reason required. Imagine if any other industry worked that way, like your mortgage? While you're reading the fine print, also check for things like purchase protection, lifetime warranty coverage and travel discounts. These may end when your introductory rate ends. And speaking of that, what does your introductory rate become after the teaser period? It could be more than you bargained for, especially if it's a variable APR.
9. Good payers are called deadbeats! Deadbeat – it's what credit card companies call those folks who are responsible and pay off the balance each month. They don't like those people, not one bit. That's because they make little to no money off of them. No, credit card companies like you to carry a nice hefty balance and pay only the minimum each month. If you're one of those people, known as 'revolvers', you're part of the crowd that contributes roughly 90% of the credit card company's income. What a crazy upside-down world credit is.
10. You can demand, and get, a better deal. APR too high? Hate the annual fee? Want a longer grace period? It turns out your credit card company may just have to do your bidding. See, the fees they charge are not considered a necessary cost of doing business, so you can request, firmly, that they be reduced or eliminated. Now, imagine what would happen if we all did that? No wonder they want that one kept secret. And remember, if all else fails, find a lower cost APR card and transfer your balance. You have at least that going for you.



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